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E.O. 12958: N/A
TAGS: ECON EINV ETRD LT AGOA
SUBJECT: LESOTHO FACES UP TO ITS DEVELOPMENT CHALLENGES

¶1. SUMMARY: The Government of Lesotho and the country's private sector held a three-day World Bank-sponsored Private Sector Development Forum from April 6-8, 2005 to identify and map out modalities for eliminating infrastructure, training, administrative and legal impediments to private sector growth. As a landlocked country, an imperative aspect of Lesotho's development was identified as its integration with the economies of South Africa and other countries of the region. The meeting also looked at value chain analyses of selected strategic sectors, and recommended interventions for enhancing the country's productivity in an increasingly competitive international trade regime. World Bank studies carried out in 2004 looked into Lesotho's company registration and licensing procedures; immigration and customs services; incentives for investors; the financial sector; technical and vocational education - all of which were found to be cumbersome, antiquated and not friendly to investors, be they local or foreign. The country's system of technical and vocational training was found to be unresponsive to the skills demands of active sectors of the economy. Recommendations by working groups on each of the major topics are expected to form part of an Aide Memoire between the GOL and the World Bank. This will outline specific project actions that need to be undertaken. END SUMMARY.

¶2. Setting the tone for a new era of cooperation in reforming the environment for private sector growth, Prime Minister Mr. Pakalitha Mosisili cited the ninety days it takes to register a company in Lesotho, contrasting it to two days in Canada. (Note. In considering Lesotho's qualification to compete for funding in 2004, the Millenium Challenge Corporation also identified this lengthy process as substantially above the average among MCC countries. End Note.) In addition, the Prime Minister identified an added barrier as "the high cost and poor services encountered from the staff during the process of registering a company" On immigration and customs services, he singled out an example of an investor who, rather than being granted an entry visa at the point of entry, was turned away from the South Africa/ Lesotho border near Maseru to apply for an entry visa at the offices of the Lesotho High Commission in Pretoria, five hours away. He called on participants to consolidate the gains made in the textile sector by retaining existing investors and diversifying both the country's markets as well as its export portfolio.

Following are some of the major themes of the Forum.

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TEXTILE INDUSTRY VULNERABLE TO EXTERNAL SHOCKS:
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¶3. Forum participants identified the garment industry as an important engine of growth which needed to be consolidated. The dominance of the sector and its dependence on a single market, the United States, however rendered the country vulnerable to external shocks. A consultant of ComMark (a non-profit organization funded by the UK to assist the garment industry) observed that the closure of seven factories employing 6,700 workers since January 2005, could not be attributed to the end of the Multi-Fiber Agreement, but rather to the exchange rate between the Loti (which is pegged at par with the South African Rand) and the USD, which has shrunk profit margins in the face of increasing production costs.

¶4. Lesotho's inputs for the production of knit apparel are all sourced from outside the country, which renders the industry hostage to the inefficiencies in the delivery and sourcing of inputs. Rail transport from the South African ports of Durban and Port Elizabeth is slow, and the Maseru Container Terminal inadequate for increasing traffic. Transport of finished products to the ports is through trucks which make a shorter delivery time, although more expensive because of the rising cost of petrol.

¶5. Unlike woven fabric production, which is vertically integrated in the country, the knit fabric sector will be exposed to fabric sourcing shocks in 2007, when Lesotho's third country fabric allowance under AGOA expires.

¶6. Although Lesotho is the biggest exporter of textiles to the U.S. in volume terms, the value of its products per square meter has consistently been lower than that of Mauritius, which

concentrates on higher value apparel products like woven blouses. The decision to move in this direction however cannot be made in Lesotho, whose industry consists of cut-make-and-trim production lines whose orders, contracts and input supplies and sourcing are decided by parent companies in the Far East.

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LABOR COSTS AND PRODUCTIVITY:
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¶7. The textile industry in Lesotho has not traditionally invested much in the development of local skills. New recruits are taught single machine skills over a short period of time. Cushioned by readily available, low wage employees, Lesotho managers have concentrated rather on meeting targets and deadlines at the expence of sharpening productivity.

¶8. In order to move towards higher value apparel, the industry would be forced to improve labor skills and productivity. Although Lesotho's labor costs are competitive, the operator productivity within the industry remains lower that competitors in the region, including Mauritius and Kenya. Furthermore, the in-line defect rate is high, resulting in the need for additional labor input to make the required corrections during the finishing stages of production. In cases where inefficiencies exist on sewing lines, the tendency has been to allocate more machinists to the problem, which results in the use of more manpower, adding further to the cost of production.

¶9. Another evidence of lack of skills is the high concentration of expatriate supervisors and line managers who are paid higher salaries than local employees . This contributes to high overhead costs and animosity among Basotho who feel they have a right to hold these positions in industries located in their country although substantial experience and training will be required to achieve such levels.

LEGAL FRAMEWORK:

¶10. The legal framework around registering and licensing of businesses was found to be lengthy, cumbersome and unnecessarily costly for the private sector. Equally time consuming are procedures for obtaining residence permits for expatriate staff of foreign companies operating in Lesotho. Resolutions at the conference called on the government to speedily enact reform bills to the Companies Act of 1967 to comply with internationally acceptable norms. A similar recommendation was made regarding the Aliens Control Act of 1966, which governs the country's immigration and passport services.

¶11. The GOL was commended for its responsiveness to concerns raised by foreign investors. These included the provision of infrastructure and recent interventions to speed up the process of Value Added Tax refunds by the Lesotho Revenue Authority. Identifying the local private sector as equally important in entrenching economic gains made to date, the conference advised the government to extend its incentive package to the local investors as well.

¶12. COMMENT:

The forum was a good opportunity for the GOL to commit to improving service delivery to the private sector, be it foreign or local. The reluctance, or slowness of the government to enact legislation around issues of land reform women's rights, company registration, to name but a few, does not augur well for the immediate future. Action on several legislative fronts has been further slowed by preparations for the April 30 first local elections and follow-up integration of newly-elected officials. Nevertheless, these stated commitments will have to be followed up with quick action, because pending donor assistance for the country, including access to Millennium Challenge Account funds depends on implementation of reforms as well as other factors. The conference further created an opportunity for increased coordination between donors, who have displayed a strong commitment to provide Lesotho with technical and financial support to implement actions that promote private sector growth. END COMMENT.

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